

CITY OF MONROE
Snohomish County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Comply With Revenue Bond Covenants

Our 1991 audit report included a finding regarding the city's failure to comply with Water Revenue Bond debt service covenants.

We cited the city's 1978 Water Revenue Bond Ordinance 656, Section 10 of which requires that:

Net Revenue together with Assessment Income in each calendar year will equal at least 1.4 times the maximum amount required to be paid in any calendar year thereafter for the principal of and interest on all Parity Bonds then outstanding.

In that report we stated that our computations indicated a \$30,973 shortfall in Water Fund revenues.

City officials responded to this condition by passing Ordinance 1003 on December 23, 1992. This ordinance combined the water and sewer funds, an action which affords city officials more flexibility in combining revenues to meet these requirements.

The corrective action was not taken, however, in time to prevent the problem from reoccurring in 1992.

Our current audit of the city's compliance with debt covenants for their revenue bonds, revealed that "Net Revenue" plus related "Assessment Income" of the Water Fund was not sufficient to comply with these covenants for the 1978 Water Revenue Bonds. The calculated shortfall for 1992 is \$60,076.

In addition, we discovered that the funds held in the Bond Reserve Fund were not sufficient to meet the Water Revenue Bond reserve requirements. The calculated shortfall for 1992 is \$7,261.

Section 7.b. of Ordinance 656 states that:

The city covenants and agrees that when the required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the amount required in the following calendar year to pay the principal and interest on all outstanding Parity Bonds.

These bond covenants are in place to help ensure bond holders of the city's ability to meet their revenue debt service requirements.

We recommend that city officials continue to monitor and collect sufficient revenues for the water/sewer utility and maintain adequate funds in the reserve account to comply with these debt covenants.